

Saskatchewan Government Insurance

Property/Casualty Operations

1 9 8 6 A N N U A L R E P O R T



SGI 

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Cover:
SGI agents began linking up with head office in 1986, through a computer system that allows them to issue policies to customers on the spot.

SGI ||||

Letter of Transmittal

Regina, Saskatchewan
March, 1987

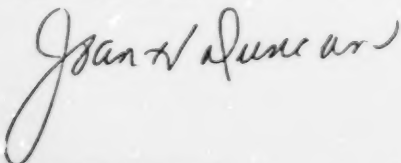
To His Honour,
The Honourable F. W. Johnson,
Lieutenant-Governor of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the annual report of Saskatchewan Government Insurance for the year ended December 31, 1986, including the financial statements therefor, duly certified by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with the Saskatchewan Government Insurance Act.

I have the honour to be, Sir,

Your obedient Servant,



Joan H. Duncan
Minister in Charge of
Saskatchewan Government Insurance



President's Message

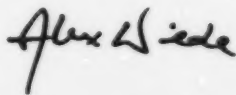
GI's staff around the province deserve much credit for our profitable property/casualty results, and for our ongoing commitment to make top-notch customer service a priority.

For the first time since 1983, SGI's property/casualty business turned a profit. Our bottom line of \$3.9 million showed the positive effects of careful underwriting that helped minimize our underwriting losses, despite continuing challenges in liability insurance and a serious bout of summer storms. Smaller-than-anticipated underwriting losses, combined with greater investment income and slowing losses in our assumed reinsurance portfolio, were largely responsible for the year's successful outcome.

Beyond its strong financial results, the property/casualty business also made strides in the area of customer service. By the end of 1986, 243 staff had taken

a special in-house course on serving customers well. And when a fire destroyed the Kamsack high school, SGI had a \$500,000 cheque in the hands of school officials within days to cover immediate, emergency expenses. We also began an exciting project linking our agents to our head office through computer automation to help improve overall efficiency.

The strengths that returned profitability to our property/casualty operations in 1986 - our stability, our dedicated employees, and our commitment to our customers - will continue as we meet the challenges of 1987 and beyond.



Alex Wilde
President



Executive



Alex Wilde
President



Larry Fogg
Vice-President
Claims



Jill Hilden
Vice-President
Finance



Alan Cockman
Vice-President
Systems



Grant Gibson
Vice-President
Motor Vehicle Division



Bob Warren
Vice-President
Underwriting Operations

Board of Directors

Mr. Allan W. Wagar
Chairman
Regina

Hon. Joan H. Duncan
Minister in Charge
Vice-Chairman

Mr. Arden E. B. Erman
Maple Creek

Mr. Eli Fluter
Regina

Mr. James N. Goring
Biggar

Mr. Ted Henson
Saskatoon

Mr. Ron W. Jeffery
Weyburn

Mr. Donald R. Leier
Saskatoon

Mr. D. A. K. MacLean, Q.C.
Regina

Mr. Ray Malinowski
Yorkton

Mr. A. E. Nicholson
Regina

Mr. George F. Shaw
Esterhazy

Mr. Ron I. Skinner, Sr.
Yorkton

Mr. Ed Sulewski
Paddockwood

Introduction

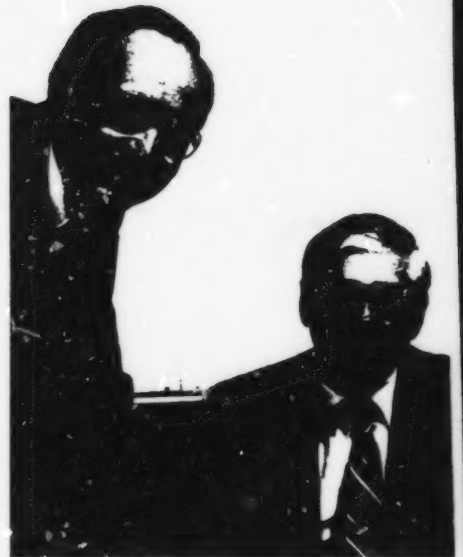
GI's property/casualty business gives Saskatchewan people affordable security through extension auto, home, tenant, farm and commercial insurance packages, which are offered on a competitive basis through 433 independent agents. Although SGI is one of more than 100 companies providing general insurance in Saskatchewan, more residents continue to depend on SGI than any other insurer.

Community Service

Every SGI insurance package is backed up by a hardworking service team and by convenient claims centres around the

province, including six new centres opened in 1986.

SGI's property/casualty operations make a major economic contribution to the province, too. In 1986, our customers received \$71.5 million in claims payments, local communities received \$857,000 in grants in lieu of taxes, and we paid nearly \$25 million in commissions to our agents. We also did our part to support local, non-profit organizations through thousands of dollars worth of donations.



SGI's staff work hard to give top-notch service.

The Year in Review

GI's steady progress toward achieving profitability while emphasizing high-quality customer service paid off in 1986. After two consecutive years of losses, the property/casualty business earned a \$3.9 million profit. Although 1986 results do not erase the accumulated deficit, they are gratifying in a year punctuated with challenges from liability insurance, a tight reinsurance market and numerous summer storms.

The Bottom Line

The property/casualty business produced a net income of \$7.9 million before assumed operations in 1986, a marked improvement over \$1 million in 1985. These positive results on Saskatchewan-based business carried over to our assumed reinsurance portfolio as well. Assumed reinsurance losses, which were \$8.8 million in 1985, dropped substantially to \$4 million in 1986. With no new assumed business on our books, the cancelled business producing such losses will continue to gradually run off over the next several years.

Premiums earned were \$114.3 million, 9% greater than 1985. The increase primarily reflects the higher premiums that market conditions demanded on liability

Five-Year Comparison of Financial Statistics -- SGI					
(Millions of \$)	1986	1985	1984	1983	1982
Premiums Written	\$118.1	108.0	100.9	102.9	94.9
Premiums Earned	\$114.3	105.3	102.8	97.4	91.5
Claims Incurred	\$ 75.4	75.4	71.7	80.1	81.7
Other Expenses	\$ 45.3	41.7	41.8	39.2	31.2
Number of Reported Claims (Excluding Auto Extension)	45,410	45,620	46,771	61,947	56,758

coverage offered through our commercial policies.

Investment earnings, which compensated for underwriting losses, grew to \$13.9 million.

Although the number of claims increased by 5% over 1985, careful underwriting, risk selection and risk management contributed to a marginal decrease in claims costs.

The administrative expense ratio remained virtually unchanged from 1985.

Excellent Products and Claims Service

Competitive pricing, with especially attractive rates for claims-free customers, and careful attention to service ensured that our policy count remained stable.

Although claims costs dropped slightly, we had ample opportunity to prove ourselves on claims service after several serious summer storms and a number of major school losses. The fire that destroyed the Kamsack high school in November was the largest school loss - estimated at \$3.5 million - in SGI's history. To help ease the terrible inconvenience to the local students and teachers, SGI presented a \$500,000 cheque to the Kamsack School Board a



SGI values feedback from customers, and Brian Forster and Jerry Hochban of Underwriting Operations tabulate comments and recommend improvements on our claims service.

Saskatchewan Government Insurance

week after the loss to cover immediate emergency expenses.

Product Results

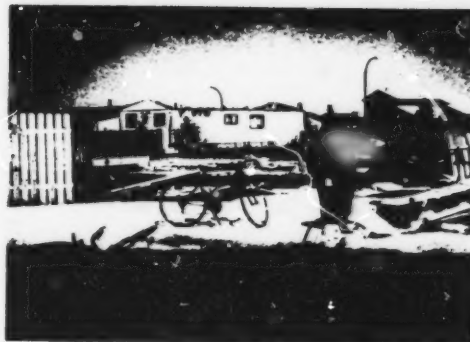
SGI managed to equal or better the loss ratio of every product line except farm for an overall 6% decrease, to 66%, in 1986. That accomplishment, 11% better than the projected industry loss ratio, took a concentrated effort from underwriting staff, who evaluated risks carefully, adjusted pricing to better reflect risks, and made increasing use of subscription policies, giving SGI only a portion of large risks.

Personal Lines

As the result of careful underwriting, premiums written under SGI's personal lines products, which include Agro, Home, Tenant, General Dwelling, Mobile Home and Pension Paks, declined slightly to \$54.5 million.

Although there were 822 fewer claims under Agro Pak in 1986, the average cost per claim increased 15%, producing an overall underwriting loss of \$4.2 million on that product. These results point to a continuing challenge for SGI to accurately evaluate the risks associated with complex specialty operations, such as hog farms and seed cleaning plants. We have reorganized our farm underwriting area to concentrate our expertise in this area and help improve future results.

The other personal lines products performed considerably better than Agro Pak. Total claims costs dropped slightly, and overall underwriting losses were only \$1.7 million, down from \$2.2 million in 1985.



SGI adjusters worked long hours to get out to see customers quickly after summer storms damaged property in many communities.

Auto

Our personal and commercial auto products continued to attract new customers because of their broad coverage and affordable pricing. Policy counts grew 2% over 1985.

Despite an 8% increase in claims costs, the auto line distinguished itself by attaining an underwriting profit of \$148,000.

Commercial

Liability pricing had a major impact on commercial results, with a 27% increase in premiums written to \$23.5 million.

Thorough consultation with customers and more realistic pricing and underwriting paid off in a dramatic recovery from the 1985 underwriting losses. Commercial lines ended 1986 with an underwriting loss of only \$700,000.



Artist Chris Rusk helps SGI produce a variety of product and safety information for our agents and customers.



Jim Roberts and Karen Smith of Personal Lines discuss a poster designed to help agents sell Auto Pak, SGI's popular auto extension coverage.

Meeting the Liability Challenge

What was termed a crisis in liability insurance has become for SGI simply a business challenge. As liability costs soared throughout the industry, and reinsurance capacity shrank, SGI worked diligently to make protection available to Saskatchewan people and businesses.

Many insurance companies simply refused to write high-risk business. But while SGI's high-risk liability prices were much higher at the end of 1986 than they were a year earlier, coverage was available for virtually all customers, and prices had stabilized at the new higher levels.

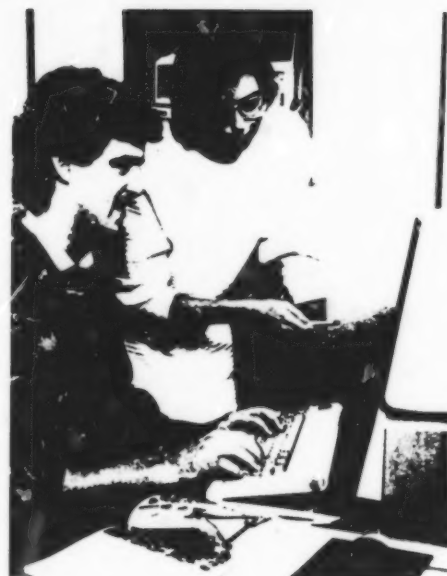
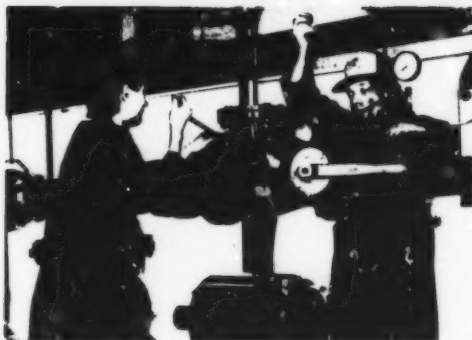
The key to our being able to offer the coverage that many of our competitors couldn't was the stability of our ceded reinsurance program. Our reinsurance staff

conducted intensive negotiations, and thanks to our solid, long-term relationship with our reinsurers, we were able to maintain adequate coverage at a price that was still within reach.

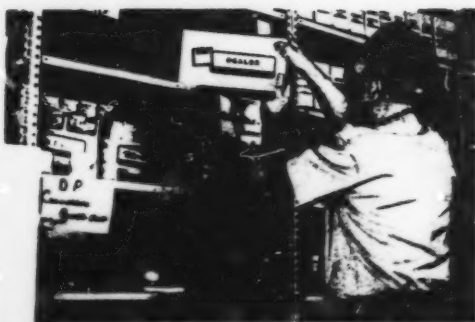
Computer Linking of SGI and Agents

Underwriting and Systems staff helped SGI again lead the market by designing an automated link between head office and our agents in 1986. After a successful pilot project tested by W. W. Smith Insurance Ltd. of Swift Current, SGI brought a second agent, F. J. Reidy and Associates Inc. of Moose Jaw, on-line near the end of the year. Many more agents will join them in 1987, enjoying the benefits of being able to get policy and claims information quickly and to issue home policies (and soon, auto and farm policies) on the spot. Both SGI and agents will streamline office procedures and save valuable time.

Maintenance mechanics Dao Lam and Gordon Triffo keep heating and other facilities in top form at SGI's head office.



Blair Wilchynski and Bev Balfour try out just one of SGI's 585 computer terminals, 124 personal computers and 69 small printers, which are adding to efficiency throughout the corporation.



It's no small task for Andy Boychuk and the rest of our warehouse staff to stock supplies for hundreds of SGI agents and employees.

Responsibility For Financial Statements

The financial statements have been prepared by the management of the corporation in conformity with accounting principles generally accepted in Canada. The financial statements have been examined and approved by the Board of Directors. The independent auditor has performed an audit of the corporation which has enabled him to express his opinion on the financial statements of the corporation. This opinion is shown on page 10.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An Audit Committee, composed of members of the Board of Directors of SGI, meets periodically with financial officers of the corporation and the external auditors. The independent auditor has free access to this Committee, without management present, to discuss the results of his audit work and his opinion on the adequacy of internal financial controls and the quality of financial reporting.



**L. Jill Hilsden
Vice-President
Finance**

Auditor's Report

To the Members of the Legislative Assembly
Province of Saskatchewan:

I have examined the statement of financial position of Saskatchewan Government Insurance as at December 31, 1986, and the statements of operations and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1986, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



W. G. Lutz, F. C. A.
Provincial Auditor

Regina, Saskatchewan
February 12, 1987

Statement of Financial Position

December 31	<u>1986</u>	<u>1985</u>
	(Thousands of \$)	
Assets		
Cash and Investments Maturing Within One Year	\$ 37,291	\$ 36,348
Accounts Receivable	17,718	20,596
Prepaid Expenses	13,661	15,099
Long-Term Investments (Note 4)	89,317	73,733
Net Investment in Capital Lease (Note 5)	5,301	5,350
Property, Plant and Equipment (Note 6)	<u>19,243</u>	<u>19,711</u>
	<u>\$182,531</u>	<u>\$170,837</u>
Liabilities		
Accounts Payable and Accrued Charges	\$ 13,589	\$ 12,184
Unpaid Claims	83,069	79,923
Unearned Premiums	<u>60,996</u>	<u>57,718</u>
	<u>157,654</u>	<u>149,825</u>
Capitalization		
Advances (Note 3)	57,000	57,000
Retained Earnings (Deficit)	<u>(32,123)</u>	<u>(35,988)</u>
	<u>24,877</u>	<u>21,012</u>
	<u>\$182,531</u>	<u>\$170,837</u>

(See accompanying notes)

Statement of Operations and Retained Earnings

Year Ended December 31	1986	1985
	(Thousands of \$)	
Direct Net of Ceded Premiums Written	<u>\$118,094</u>	<u>\$107,980</u>
Premiums Earned	\$114,310	\$105,294
Investment Earnings	13,913	12,763
Other Income	<u>321</u>	<u>162</u>
Total Revenue	<u>128,544</u>	<u>118,219</u>
Claims Incurred	75,404	75,440
Commissions	21,902	20,394
Premium Taxes	5,082	4,576
Administrative Expenses	<u>18,267</u>	<u>16,760</u>
Total Claims and Expenses	<u>120,655</u>	<u>117,170</u>
Income Before Assumed Operations	7,889	1,049
Income (Loss) From Assumed Operations (Note 7)	<u>(4,024)</u>	<u>(8,758)</u>
Net Earnings (Loss)	3,865	(7,709)
Retained Earnings (Deficit):		
Balance Beginning of Year	<u>(35,988)</u>	<u>(28,279)</u>
Balance End of Year	<u>\$ (32,123)</u>	<u>\$ (35,988)</u>

(See accompanying notes)

Statement of Changes in Financial Position

Year Ended December 31	<u>1986</u>	<u>1985</u>
	(Thousands of \$)	
Resources Provided		
Net Earnings (Loss)	\$ 3,865	\$ (7,709)
Adjustments to Convert Earnings to a Cash Basis:		
Loss (Gain) on Sale of Fixed Assets	(1)	27
Increase in Prepaids, Receivables, Payables & Deferred Accounts (Net)	12,145	14,861
Depreciation and Amortization	<u>1,208</u>	<u>480</u>
Resources Provided by Operations	17,217	7,659
Proceeds from Disposal of Fixed Assets	41	91
Capital Lease Repayment	<u>49</u>	<u>44</u>
Total Resources Provided	17,307	7,794
Resources Applied		
Acquisition of Fixed Assets	<u>723</u>	<u>1,385</u>
Net Increase in Resources Available for Investment	16,584	6,409
Increase (Decrease) in Long-Term Investments	<u>15,641</u>	<u>(3,713)</u>
Increase in Cash and Investments Maturing Within One Year	943	10,122
Cash and Investments Maturing Within One Year:		
Balance Beginning of Year	<u>36,348</u>	<u>26,226</u>
Balance End of Year	<u>\$37,291</u>	<u>\$36,348</u>

(See accompanying notes)

Notes to the Financial Statements

1. Significant Accounting Policies

The corporation's accounting policies are in accordance with generally accepted accounting principles. The following are considered to be significant:

Investments

Bonds, debentures and mortgages are stated at amortized cost.

Premium Acquisition Cost

Premium taxes and commissions are charged to expense over the terms of the insurance policies to which such costs relate.

Depreciation

Depreciation on property, plant and equipment is provided on a straight-line basis, commencing in the year in which the assets are placed in service, at rates which are expected to amortize the cost over the service life of each asset.

Unpaid Claims

The provision for unpaid claims includes the estimated cost to the corporation of reported claims, and an estimate based on the claims settlement experience of the corporation of the cost of claims yet to be reported.

Capital Lease

The net investment in the capital lease reflects the present value of future lease payments, discounted at an interest rate implicit in the lease. A portion of the lease payments is applied against the net investment with the remainder recognized as investment earnings.

Unearned Premiums

Premiums not yet taken into income represent the portion of the policy premiums relating to the unexpired term of each policy.

Foreign Currency Translation

Monetary items, shares and convertible bonds are adjusted to reflect the exchange rate in effect at year-end. Non-monetary items, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in that year.

Administrative Expenses

The corporation as administrator of the Saskatchewan Auto Fund incurs certain administrative expenses which cannot be readily or economically identified with the operations of the corporation or the Saskatchewan Auto Fund. Section 97 of the Automobile Accident Insurance Act provides that the Board of Directors of the corporation may make rules for the allocation of these expenses between SGI and the Auto Fund. These administrative expenses are shared equally as approved by the Board of Directors. This treatment is consistent with the allocation used in the prior year.

Identifiable administrative expenses are charged directly to operations.

Superannuation

The corporation has a defined benefit retirement plan covering its employees. The plan applies only to those employees hired before January 1, 1980, who elected to remain in the plan. Current service costs of this plan are charged to earnings on the basis of actuarial valuations made every third year. Prior years' service benefits are fully funded, as the Fund is in a surplus position per the actuarial valuation made as of December 31, 1983.

The corporation also has employees who are members of the Crown Investments Corporation Pension Plan 39562 Fund. The corporation matches employee contributions to this defined contribution plan.

2. Status of the Corporation

Saskatchewan Government Insurance was established as a branch of the Public Service by the Government of Saskatchewan Insurance Act, 1944, reorganized pursuant to the Saskatchewan Government Insurance Act, 1946, and continues under the provisions of the Saskatchewan Government Insurance Act, 1980.

The corporation conducts a property/casualty insurance business under the provisions of its Act and also acts as administrator of the Saskatchewan Auto Fund under the provisions of the Automobile Accident Insurance Act (Chapter A-35, Revised Statutes of Saskatchewan, 1978).

The accounts of the corporation are consolidated in the annual financial statements of the Crown Investments Corporation of Saskatchewan, the financial holding company of the Province of Saskatchewan.

3. Advances

Advances from the Crown Investments Corporation of Saskatchewan (C.I.C.) are non-interest bearing and repayment is at the discretion of C.I.C.

4. Long-Term Investments

The components of the corporation's long-term investments are as follows:

	(Thousands of \$)			
	Dec. 31/86		Dec. 31/85	
	Book Value	Market Value	Book Value	Market Value
Bonds & Debentures	\$62,232	\$67,307	\$52,213	\$55,792
Mortgages	6,355	6,575	5,565	5,828
Shares & Convertible Bonds	20,730	21,368	15,955	17,859
Total Long-Term Investments	<u>\$89,317</u>	<u>\$95,250</u>	<u>\$73,733</u>	<u>\$79,479</u>

Notes to the Financial Statements

5. Net Investment in Capital Lease

The corporation, as lessor, has a 37 percent interest in a lease agreement with a Government department for a term of thirty years (twenty-four years remaining) on property in Prince Albert. The lease transferred substantially all of the benefits and risks incident with the ownership of the property to the lessee.

6. Property, Plant and Equipment

The components of the corporation's investment in property, plant and equipment, as well as the related accumulated depreciation, are as follows:

	(Thousands of \$)			
	Cost Dec. 31/86	Accum. Depr. 1986	Net Book Value Dec. 31/86	Net Book Value Dec. 31/85
Land & Improvements	\$ 912	\$ -	\$ 912	\$ 912
Buildings	18,887	3,487	15,400	15,873
Furniture & Equipment	5,449	2,518	2,931	2,926
Total	<u>\$25,248</u>	<u>\$6,005</u>	<u>\$19,243</u>	<u>\$19,711</u>

7. Assumed Reinsurance

SGI discontinued its practice of underwriting assumed reinsurance business as of December 31, 1985. All assumed reinsurance contracts were cancelled as of December 31, 1985. Although no new contracts have been written, SGI remains financially responsible for claims run-off on assumed contracts entered into prior to December 31, 1985.

In 1986, assumed reinsurance premiums earned amounted to \$1,741,000 (1985 - \$4,374,000); claims incurred were \$4,966,000 (1985 - \$11,364,000); and the loss from assumed operations was \$4,024,000 (1985 - \$8,758,000).

8. Comparative Financial Information

For comparative purposes, certain 1985 balances have been reclassified to conform with the 1986 financial statement presentation.

9. Related Party Transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms. Other amounts due to (from) related parties and the terms of settlement are described separately in the financial statements and the notes thereto.